

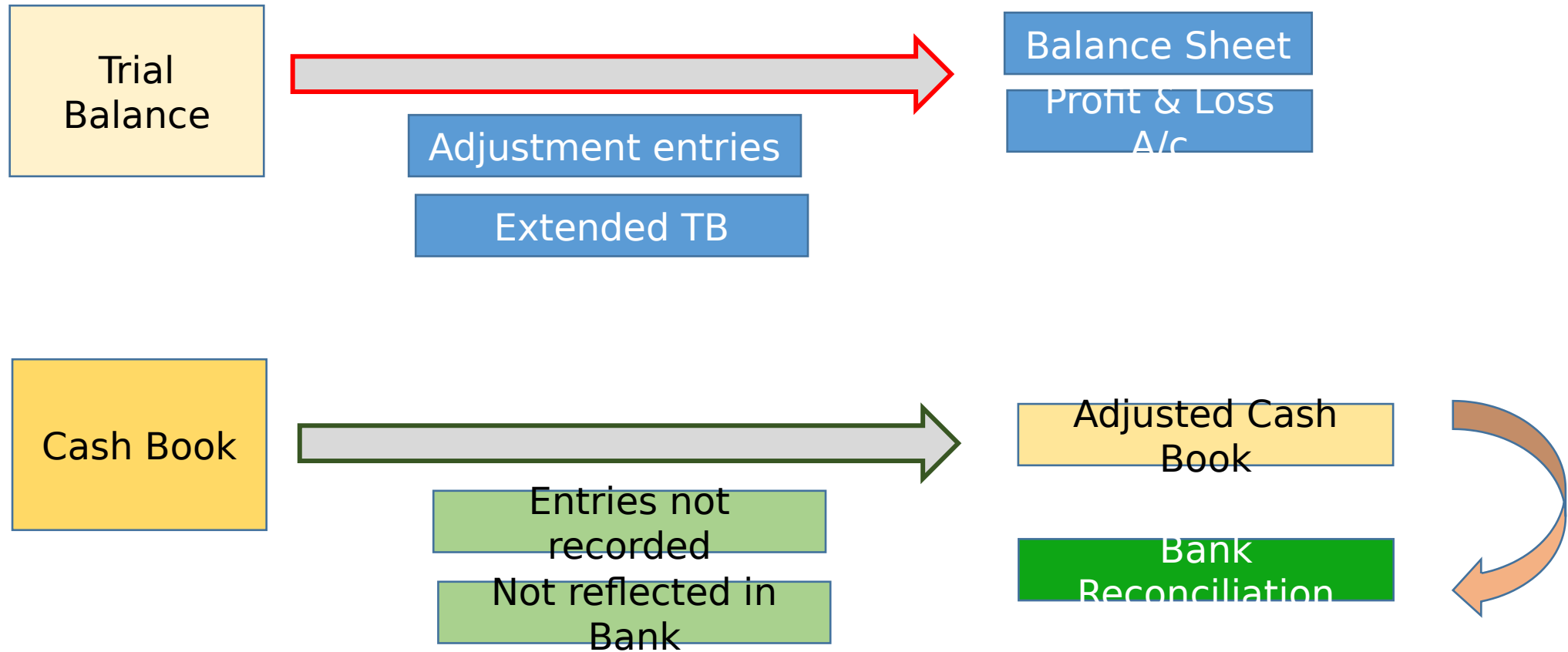
Presentations on

- Preparing Basic Financial Statements**
- Control Accounts, errors and omissions**

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Scope of study



Trial Balance

A list of nominal ledger balances shown in debit and credit column, as a method of testing the accuracy of double entry system.

The trial balance is prepared after all the transactions for the period have been journalized and posted to the General Ledger.

Limitation

confirms that the total of all debit match the total of all credit balances only;

an incorrect debit entry being offset by an equal credit entry;

no proof that certain transactions have not been recorded or not.

Trial Balance

Major Errors

Omission: transaction fully omitted; no effect made

Commission: debit and credit posted in correct side but to a wrong account

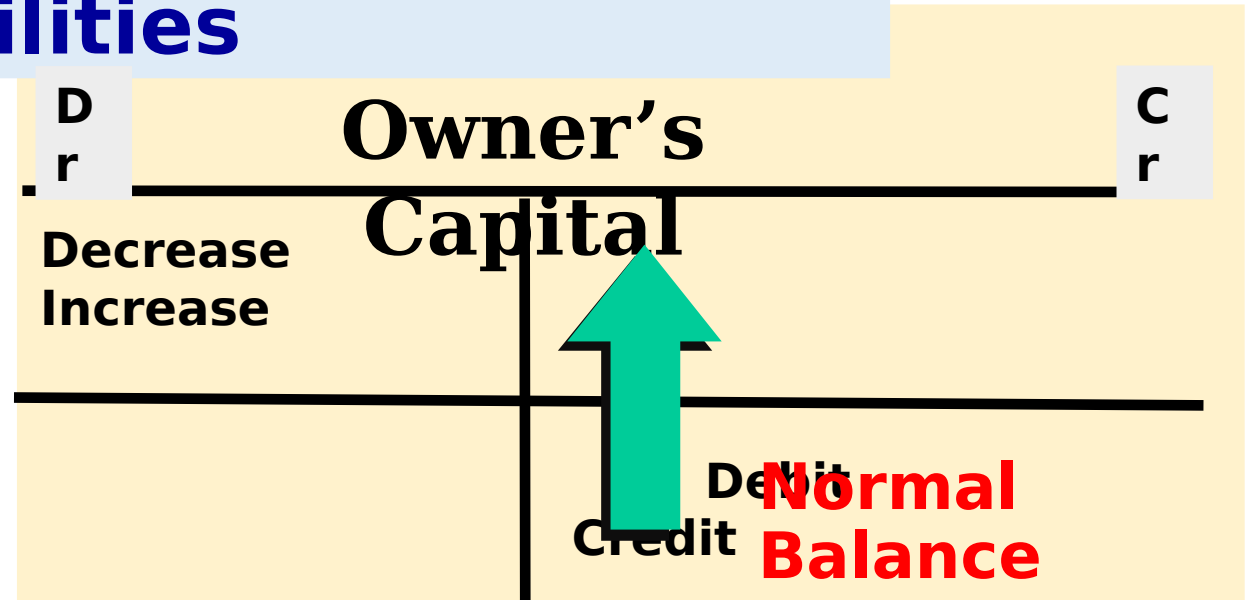
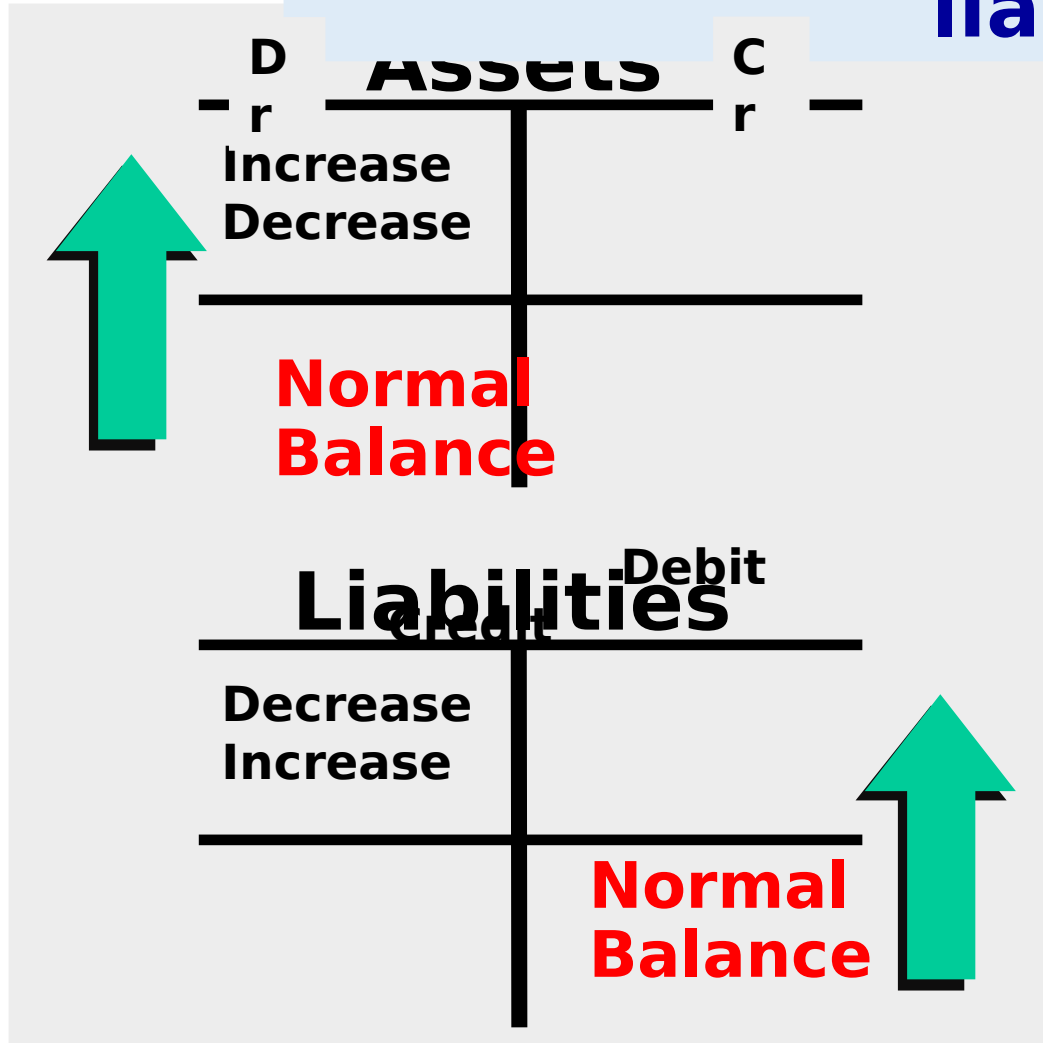
Compensating: one error cancelled by another error

Principle: Double entry observed but an entry made in the wrong class of account; payment by cheque for vehicle repairs correctly credited to bank account but debited to vehicle account instead.

Duplication:

Original entry: posted wrong amount

Normal balances – assets and liabilities



ANY EXPENSE

ANY REVENUE



Debit
Credit

Trial Balance Example

	Debit	Credit	Reported to
Petty cash	20		BS- Assets
Cash in Bank	50		BS- Assets
Cash in Bank- FDR	10		BS- Assets
Accounts receivable	5		BS- Assets
Reserve for bad debts		10	BS- Liabilities
Inventory	25		BS- Assets
Prepaid insurance	2		BS- Assets
Prepaid other expenses	1		BS- Assets
Office supplies	1		BS- Assets
Utility deposits	2		BS- Assets
Notes receivable	2		BS- Assets
Investments	5		BS- Assets
Organization expense	7		PL- Exp

Trial Balance Example

	Debit	Credit	Reported to
Vehicles	10		BS- Assets
Accumulated dep - vehicles		5	BS- Liabilities
Furniture and fixtures	2		BS- Assets
Accumulated dep - furniture		2	BS- Liabilities
Equipment	15		BS- Assets
Accumulated dep - equipment		2	BS- Liabilities
Buildings	10		BS- Assets
Accumulated dep - buildings		-	BS- Liabilities
Land	15		BS- Assets
Goodwill	1		BS- Liabilities
Other intangible assets	2		BS- Liabilities
Accounts payable		5	BS- Liabilities

Trial Balance Example

	Debit	Credit
Capital		200
Additional paid-in capital		5
Preferred stock		8
Retained earnings		1
Sales		50
Salary	2	
Rent	3	
Investment income		4
Purchases	26	
Freight	10	
Electricity	2	
Cost of goods sold - materials	2	
Cost of goods sold - labor	5	

Reported to
BS- Capital
BS- Capital
BS- Capital
BS- Capital
PL- Income
PL- Exp
PL- Exp
PL- Income
PL- Exp
PL- Exp
PL- Exp
PL- Exp
PL- Exp

Adjusted Trial Balance

	Debit
Bank Loan	12,000
Cash at Bank	11,700
Capital	13,000
Rent	1,880
Trade Payables	11,200
Purchase	12,400
Sales	34,600
Other Payables	1,620
Trade Receivables	12,000
Bank loan interest	1,400
Other expenses	11,020
Non- current assets	22,020

- Materials bought Tk.1,000 half for cash and half on credit
- Sales of Tk. 1,040, Tk.800 of which were on credit
- Paid wages to shop assistance of Tk.260 in cash

Adjusted Trial Balance

	Debit	Credit
Bank Loan		12,000
Cash at Bank	11,700	
Capital		13,000
Rent	1,880	
Trade Payables		11,200
Purchase	12,400	
Sales		34,600
Other Payables		1,620
Trade Receivables	12,000	
Bank loan interest	1,400	
Other expenses	11,020	
Non- current assets	22,020	
	72,420	72,420

- Materials bought Tk.1,000 half for cash and half on credit
- Sales of Tk. 1,040, Tk.800 of which were on credit
- Paid wages to shop assistance of Tk.260 in cash

Purchases	Dr	1,000	
Cash at Bank	Cr		500
Trade Payables	Cr		500

Cash at Bank	Dr	240	
Trade Receivable	Dr		800
Sales	Cr		1,040

Other Exp	Dr	260	
Cash at Bank	Cr		260

Adjusted Trial Balance

	Debit	Credit
Bank Loan		12,000
Cash at Bank	11,700	
Capital		13,000
Rent	1,880	
Trade Payables		11,200
Purchase	12,400	
Sales		34,600
Other Payables		1,620
Trade Receivables	12,000	
Bank loan interest	1,400	
Other expenses	11,020	
Non- current assets	22,020	
	72,420	72,420

	Debit	Credit
		12,000
240-500-260	11,180	
		13,000
	1,880	
500		11,700
1,000	13,400	
1,040		35,640
		1,620
800	12,800	
	1,400	
260	11,280	
	22,020	
	73,960	73,960

Extended Trial Balance

An extended trial balance is a worksheet, used to keep track of adjustments between the trial balance and the final accounts.

This has debit and credit columns for the initial trial balance, plus debit and credit columns for adjustment journals. A revised trial balance is then created by cross-casting horizontally.

An extended trial balance is used to adjust trial balance figures for:-Errors-
Accruals and prepayments.-Depreciation-Irrecoverable debts written off-
Adjustments to the receivables allowance-Closing inventory figures

Extended Trial Balance

	Debit	Credit	Adjustment entries		Debit	Credit
Bank Loan		12,000				12,000
Cash at Bank	11,700				11,180	
Capital		13,000	240	760		13,000
Rent	1,880				1,880	
Trade Payables		11,200				11,700
Purchase	12,400			500		
Sales		34,600	1,000		13,400	
Other Payables		1,620		1,040		35,640
Trade Receivables	12,000					1,620
Bank loan interest	1,400		800		12,800	
Other expenses	11,020				1,400	
Non- current assets	22,020		260		11,280	
	72,420	72,420	2,300	2,300	22,020	
					73,960	73,960

Income Statement

	Debit	Credit
Bank Loan		12,000
Cash at Bank	11,180	
Capital		13,000
Rent	1,880	
Trade Payables		11,700
Purchase	13,400	
Sales		35,640
Other Payables		1,620
Trade Receivables	12,800	
Bank loan interest	1,400	
Other expenses	11,280	
Non- current assets	22,020	
	73,960	73,960

Income Statement	
Sales	35,640
Cost of Goods Sold	13,400
Gross Profit	22,240
OPEX & Other Exp	
Rent	1,880
Other expenses	11,280
Bank loan interest	1,400
	14,560
Net Profit	7,680

Balance Sheet

	Debit	Credit
Bank Loan		12,000
Cash at Bank	11,180	
Capital		13,000
Rent	1,880	
Trade Payables		11,700
Purchase	13,400	
Sales		35,640
Other Payables		1,620
Trade Receivables	12,800	
Bank loan interest	1,400	
Other expenses	11,260	
Non- current assets	22,020	
	73,960	73,960

Balance Sheet	
Assets:	
Cash at Bank	11,180
No- Current Assets	22,020
Trade Receivable	12,800
	46,000
Liabilities and Capital	
Capital	13,000
Bank Loan	12,000
Trade Payable	11,700
Other Payable	1,620
Net Profit	7,680
	46,000

Case Study

Million Taka

Opened Bank A/c: Tk. 400, Took Bank Loan, Tk. 5,000.

Bought car Tk. 2,500 cash, Insured Tk. 300 cash, Bought Other Equipment Tk. 1,500, Consumable items Tk.500 - both in credit

Charged customers Tk. 15,945 - credit

Purchased consumable items Tk. 15,945 on credit and diesel for car Tk.650 in cash

Withdraw Tk.1,250 cash from ATM for owner himself

Received Tk.12,935 from customer and paid to supplier Tk. 3,250

Prepare:

- Ledger Account, including Profit and Loss Ledger
- Income Statement
- Balance Sheet

Control Account

Nominal ledger account in which a record is kept of the total value of a number of similar individual items. Control accounts are used chiefly for trade **receivables** and **payables**.

Receivables control account in which records are kept of transactions involving all receivables in total.

Payables control account in which records are kept of transactions involving all payables in total.

Past Paper Question

Account Titles	Trial Balance		Adjusted Trial Balance	
	Debit	Credit	Debit	Credit
Cash in hand & at bank	22,500		22,500	
Prepaid Rent	3,500		1,500	
Office supplies	1,200		700	
Office equipment	24,000		24,000	
Accumulated dep.-Office equipment		4,800		4,800
Accounts payable		5,000		5,000
Unearned legal fees		6,500		6,500
Capital		24,400		24,400
Withdrawals	1,450		1,450	
Legal Fees Earned		17,500		21,800
Office Salaries	500		700	
Telephone Expenses	300		300	
Lighting Expense	250		400	
Accounts Receivable	4,500		5,300	
	58,200	58,200		
Rent			2,000	
Office Supplies Expense			500	

(i) Prepare adjustment entries which were necessary to prepare above adjusted trial balance.

(ii) Prepare Income Statement and Owner's Equity Statement for the year ended 31st December 2013.

Hasan Ali Adjustment Entries

Last Year Question

Date	Particulars	Taka/Debit	Taka/Credit
31 Dec' 13	Rent Expense	2,000	
	Prepaid Rent		2,000
31 Dec' 13	Office Supplies Expense	500	
	Office Supplies		500
31 Dec' 13	Office Salaries Expense	200	
	Salaries Payable		200
31 Dec' 13	Bad Debt Expense	500	
	Accounts Receivable		500
31 Dec' 13	Depreciation exp-Office equip.	2,400	
	Accumulated Depreciation - Office Equipment		2,400
31 Dec' 13	Lighting Expense	150	
	Lighting Expense Payable		150
31 Dec' 13	Unearned Legal Fees	3,000	
	Legal Fees Earned		3,000
31 Dec' 13	Accounts Receivable	1,300	
	Legal Fees Earned		1,300

Last Year Question

Hasan Ali Income Statement for the year ended 31 December 2013

Particulars	Taka	Taka
Revenues:		
Legal Fees Earned		21,800
Expenses:		
Office Salaries Expense	700	
Telephone Expense	300	
Lighting Expenses	400	
Rent Expense	2,000	
Office Supplies Expense	500	
Depreciation exp-Office equip.	2,400	
Bad Debt Expense	500	
Total Expenses		(6,800)
Net Income		15,000

Hasan Ali Owner's Equity Statement for the year ended 31 December 2013

Particulars	Taka
Capital at 01 January 2013	24400
Add: Net Income During the year 2013	15000
Less: Drawings	(1450)
Owner's Equity as on 31 December 2013	37950

Control accounts and Personal accounts

The amount owed by each credit customer is a balance on the receivables ledger. The amount owed by all the credit customer together is the balance on the **receivables control account**.

At any time the **balance on the receivables control account** should be **equal** to the **sum of the individual balances** on the **receivables ledger**.

Operating control accounts

Accounting for receivables: Transaction involving receivables are accounted for from books of original entry to both the receivables ledger and the receivables control account in the nominal ledger.

Accounting for payables: The entries made in the purchase day book and purchase ledger personal accounts are mirror images of the receivables control account, though there will be no irrecoverable debt entries in the payables accounts.

Operating control accounts

Entries in receivables/payables control accounts:

Contra: When a person or business is both a customer and a supplier, amounts owed by and owed to the person may be 'netted off' by means of a contra.

Dr: Payables control a/c

Cr: Receivables control a/c

Irrecoverable debt: When a debt owed by a customer will never be paid, the total amount is removed from receivables:

Dr: Irrecoverable debt expense

Cr: Receivables control a/c

Operating control accounts

Dishonored cheque: When a customer's cheque is paid into the business's bank but the customer's bank refuses to honor payment of it, it is 'written back' (the original entry is reversed) so as to remove the receipt of the cheque from the books:

Dr : Receivables control a/c

(recreating the debt that has still not been paid)

Cr : Cash

Operating control accounts

Accounting for wages : The wages control account is used:

- ❖ To maintain the accuracy of payroll double entry
- ❖ To identify errors in payroll double entry.

When using the **wages control account** the objective is that at the end of the process the account balance clears to zero: it is a clearing account. This will affirm that the double entry has been made correctly, though compensating errors could still exist.

The cash at bank account, the cash book and the bank statement

The **cash book** is the book of original entry for all transactions related to the company's bank account.

The **cash at bank account** is the nominal ledger account (part of the double entry system) that is the permanent record of the business's bank transactions.

The bank statement is a record of transactions on the business's bank account maintained by the bank in its own books.

Error in accounting

Transposition Errors

When two digits in an amount are accidentally recorded the wrong way round

Errors of omission

Failing to record a transaction at all, or making a debit or credit entry, but not the corresponding double entry.

Errors of principal

Making a double entry in the belief that the transaction is being entered in the correct accounts, but subsequently finding out the accounting entry breaks the 'rules' of an accounting principal or concept.

Errors of commission

A mistake is made in recording transactions in the ledger accounts

Compensating errors

Errors which are, coincidentally, equal and opposite to one another.

Correcting Errors

Suspense Accounts: An account showing a balance equal to the difference in a trial balance

A suspense account is a **temporary** account which can be opened for the following reasons-

- ✓ A trial balance is drawn up which **does not balance**
- ✓ The bookkeeper of a business knows where to post one side of a transaction, **but does not know where to post the other side.**

THANK YOU

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